



Santa Clara High Technology Law Journal

Volume 20 | Issue 3

Article 9

January 2004

Assignor Estoppel: Fairness at What Price High Tech Law Institute Publications

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ASSIGNOR ESTOPPEL: FAIRNESS AT WHAT PRICE?

Lara J. Hodgson†

TABLE OF CONTENTS

I.	Introduction	799
II.	Assignor Estoppel and its Justification.....	801
1.	The Doctrine of Assignor Estoppel	801
2.	The Rationale Behind Assignor Estoppel.....	801
III.	The Evolution and Demise of Assignor Estoppel	802
1.	The Early Cases on Patent Estoppel	802
2.	The Supreme Court Undermines the Assignor Estoppel Doctrine	804
IV.	Revival and Expansion of Assignor Estoppel by The Federal Circuit	809
V.	Summary of the History and Law of Assignor Estoppel	813
VI.	The Federal Circuit's Decisions Represent an Unjustified About-Face from the Position Advocated by the Supreme Court	814
1.	The Federal Circuit's Effective Reversal from Supreme Court Precedent Was Contrived and Unwarranted.....	815
a.	The Federal Circuit's Effort to Distinguish Diamond Scientific from Lear Ignored the Weight of Supreme Court Precedent.....	816
b.	The Federal Circuit's Reliance on the Principles of Fairness and Justice Represent an Unjustifiable Deviation from Supreme Court Precedent.....	817
c.	The Federal Circuit's Holding That an Assignment is of the "Rights" to an Invention and Not the	

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	“Language” of the Patent Undermined the Supreme Court Decisions on Assignor Estoppel	818
d.	The Federal Circuit’s Redefinition of the Scope of an Assignment Allowed the Court to Weaken the Supreme Court’s Exceptions to Assignor Estoppel	820
e.	The Federal Circuit’s Emphasis on the Signing of the Inventor’s Oath is Unwarranted and Misplaced	822
2.	The Federal Circuit’s Decisions After Diamond Scientific Have Further Expanded the Doctrine of Assignor Estoppel and Curtailed Any Exceptions	824
VII.	The Practical Concerns and Effects of Application of Assignor Estoppel.....	825
1.	The Doctrine of Assignor Estoppel Creates Warranties in Assignment Contracts Not Necessarily Intended By the Assignor	825
2.	The Judicially Created Assignor Estoppel Warranties Are Even More Troubling in the Context of Mandatory Preinvention Assignments	827
3.	The Federal Circuit’s Broad Application of Assignor Estoppel Has Unsettling Implications for Employers and Employees	828
4.	It Is Unclear Whether Assignor Estoppel Would Apply to Proceedings Before the United States Patent and Trademark Office	830
VIII.	Conclusion	831

I. INTRODUCTION

It has been well ingrained in all of us that what is fair is generally right, and what is unfair is wrong. We are all familiar with the notion that we cannot have our cake and eat it, too. How far does that sense of fairness extend? Should it take precedence over other public policy concerns which have helped to shape our laws and justice system? These questions have plagued the courts in the context of patent law and assignment agreements.¹ The following hypothetical situations help illustrate the dilemma.

Consider an inventor who acts fraudulently in obtaining a patent, which he then assigns to Company A. Can that inventor assert an inequitable conduct defense to render the patent unenforceable when he is later charged with infringement by Company A?

What about an inventor who assigns her patent to Company A, knowing that a prior art reference exists which will likely invalidate the patent? Can she defeat Company A's infringement allegations by invalidating the patent with that same prior art reference?

What about the case of an inventor who assigns his patent and subsequently discovers a previously unknown prior art reference which he believes invalidates the patent? Should the inventor be allowed to allege invalidity based on that prior art reference in defense of an infringement action?

Alternatively, what if Company A, who was assigned the patent by Inventor, subsequently assigns the patent to Company B? Should Company A be prohibited from attempting to invalidate the patent by using a prior art reference discovered after it had assigned the patent to Company B?

Finally, issues arise when corporate employees are part of a team of inventors. For example, an employee-inventor assigns his invention to Company A as required by his employment agreement, signs the inventor's oath to accompany a patent application which he

1. *Diamond Scientific Co. v. Ambico, Inc.*, 848 F.2d 1220, 1223 (Fed. Cir. 1988) (stating that "[a]t least five other courts have indicated their belief that assignor estoppel is no longer the prevailing rule of law." (citing *Coastal Dynamics Corp. v. Symbolic Displays, Inc.*, 469 F.2d 79 (9th Cir. 1972) (per curiam); *Contour Chair Lounge Co. v. True-Fit Chair, Inc.*, 648 F. Supp. 704 (E.D. Mo. 1986); *Interconnect Planning Corp. v. Feil*, 543 F. Supp. 610 (S.D.N.Y. 1982); *Marvacon Indus. v. Thermocon Indus.*, 209 U.S.P.Q. 932 (D.N.J. 1980); *Nat'l Welding Equip. Co. v. Hammon Precision Equip. Co.*, 165 F. Supp. 788 (N.D. Cal. 1958)) and that "[a]t least two courts have acknowledged the doctrine, although rejecting on the facts its application to the cases before them." (quoting *Nationwide Chem. Corp. v. Wright*, 458 F. Supp. 828, 840, 192 U.S.P.Q. 95, 105 (M.D. Fla. 1976), *aff'd* 584 F.2d 714 (5th Cir. 1978); *Brand Plastics Co. v. Dow Chem. Co.*, 267 F. Supp. 1010, 1013, 154 U.S.P.Q. 140, 142-43 (C.D. Cal. 1967), *aff'd* in part, *rev'd* in part, 475 F.2d 124 (9th Cir. 1973))).

did not prepare, and then leaves Company A while the patent is being prosecuted. Is he prevented from challenging the validity of any patent which ultimately issues from the initial application? What about his subsequent employer, Company B, who thought enough of the employee-inventor to place him in charge of its infringing product line?

It is easy to review the first scenario and determine that the inventor should not be able to avoid infringement by claiming that the patent he assigned is unenforceable as a result of his own conduct. Similarly, it seems reasonable that the employee inventor in the final hypothetical should not be prevented from arguing that a patent prosecuted and obtained by his former employer is invalid, nor should his subsequent employer. But where should the line be drawn in the other scenarios? Should a non-inventor assignor be held to the same standards as an inventor assignor?

The courts have used the doctrine of assignor estoppel to help answer these questions, but its interpretation has not been consistent.² The doctrine of assignor estoppel is a reflection of our fundamental sense of fair play, the notion that one cannot undermine the value of that which she conveyed by later challenging its worth. More specifically, assignor estoppel precludes an assignor of a patent from attacking the novelty, utility, or validity of the patent as a defense to a charge of infringement.³ The doctrine was originally adopted from the British common law,⁴ but has not always found favor with the courts. In fact, the United States Supreme Court spent the better part of the twentieth century slowly eroding the doctrine until it was effectively rendered nonviable.⁵ The Court of Appeals for the Federal Circuit, on the other hand, took up the gauntlet and has revived the doctrine.⁶ However, the broad application of the doctrine advocated by the Federal Circuit raises concerns about, among other things, patent law policies and employer-employee relationships and rights.

2. See *id.*; Amber L. Hatfield, *Life After Death for Assignor Estoppel: Per Se Application to Protect Incentives to Innovate*, 68 TEX. L. REV. 251, 264, 268 (1989).

3. *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249, 252 (1945).

4. Hatfield, *supra* note 2, at 259-60 (citing *Oldham v. Langmead*, 2 Wils. 374 (1789)).

5. See *Lear, Inc. v. Adkins*, 395 U.S. 653, 666 (1969).

6. See, e.g., *Diamond Scientific*, 848 F.2d at 1227; *Shamrock Tech., Inc. v. Med. Sterilization, Inc.*, 903 F.2d 789, 793, 795 (Fed. Cir. 1990).

II. ASSIGNOR ESTOPPEL AND ITS JUSTIFICATION

1. *The Doctrine of Assignor Estoppel*

The doctrine of assignor estoppel, simply stated, precludes a patent assignor from attacking the validity of the assigned patent as a defense to a charge of infringement.⁷ Assignor estoppel represents one embodiment of the age old principle that one should not be able to sell something on the one hand, and at the same time, try to hang on to it with the other.

This principle was first applied to patents by the English courts in the late eighteenth century, which held that having assigned his rights in a patent the inventor could not subsequently avoid infringement by arguing the patent was invalid.⁸ The Supreme Court adopted this notion in the mid-nineteenth century in *Kinsman v. Parkhurst*, where the Court held that equity prevents one from avoiding one's obligations under an assignment contract by arguing that the subject of the contract—the patent—was invalid.⁹

2. *The Rationale Behind Assignor Estoppel*

Various justifications have been offered for applying assignor estoppel, the most common of which are: (1) to prevent unfairness and injustice; (2) to prevent one from benefiting from his own wrong; (3) by analogy to estoppel by deed in real estate; and (4) to preserve the equities of contract.¹⁰ Regardless of which justificatory reasoning is espoused, however, the fundamental concept is the same: to promote fairness.

For example, the Federal Circuit has applied assignor estoppel on the grounds of fairness and justice, holding that a patent assignor cannot later assert that what he conveyed was not, in fact, a patent.¹¹ Similarly, other courts have relied on the principle that an assignor cannot escape allegations of infringement by asserting that the patent is invalid due to the assignor's own misdeeds.¹² The courts have also analogized assignor estoppel to estoppel by deed, which prohibits a grantor of a deed of land from challenging the value of the land or

7. *Scott Paper*, 326 U.S. at 252.

8. Hatfield, *supra* note 2, at 258.

9. 59 U.S. 289, 293 (1856).

10. Hatfield, *supra* note 2, at 260; see *Diamond Scientific*, 848 F.2d at 1223–26.

11. See, e.g., *Diamond Scientific*, 848 F.2d at 1224.

12. See, e.g., *Kinsman*, 59 U.S. at 293.

title.¹³ In relying on contract principles, the courts have held an assignor should not be allowed to avoid the assignment contract by arguing that he in effect conveyed nothing.¹⁴

Whichever rationale is relied upon, the gist of the argument is the same: an assignor cannot have his cake and eat it too. Although this principle of fairness strikes a chord in all of us, it does not necessarily follow that it should dictate all our dealings. There are other factors which sometimes weigh more heavily on our decisions. In the case of assignor estoppel, the Supreme Court recognized that concerns such as the patent law policies took precedence, and therefore justified severely curtailing the doctrine. Though assignor estoppel has been brought back to life by the Federal Circuit, the concerns raised by its application are no less relevant today.

III. THE EVOLUTION AND DEMISE OF ASSIGNOR ESTOPPEL

Assignor estoppel is a judicially created doctrine developed by the early British courts and adopted by the American judicial system. In 1856, the Supreme Court approved the application of estoppel in a patent dispute,¹⁵ but proceeded to chip away at the doctrine of assignor estoppel until, in 1969, it voiced its belief that the doctrine was no longer viable.¹⁶

1. *The Early Cases on Patent Estoppel*

The doctrine of assignor estoppel as it exists in American jurisprudence has its origins in the Supreme Court's decisions in *Kinsman v. Parkhurst*¹⁷ and *Pope Manufacturing Co. v. Gormully*,¹⁸ both of which addressed the general idea of patent estoppel.

The question before the Court in *Kinsman* was whether a co-owner of a patent through assignment could avoid his contractual obligations to account for his profits on the patented product by seeking to invalidate the patent.¹⁹ Parkhurst was the inventor of an improvement to a cotton gin machine and had been granted a patent

13. *Diamond Scientific*, 848 F.2d at 1225 (citing *Westinghouse Elec. & Mfg. Co. v. Formica Insulation Co.*, 266 U.S. 342, 348-49 (1924)).

14. *Westinghouse*, 266 U.S. at 350.

15. *Kinsman*, 59 U.S. at 293.

16. *See Lear, Inc. v. Adkins*, 395 U.S. 653 (1969).

17. *Kinsman*, 59 U.S. at 293.

18. 144 U.S. 224 (1892).

19. *Kinsman*, 59 U.S. at 292-93.

on his invention.²⁰ After obtaining his patent, Parkhurst entered into an agreement with Kinsman, who gained a one-third ownership of the patent; under the agreement, the pair jointly manufactured and sold the patented machines.²¹ After approximately one year, the two renegotiated their arrangement, and Kinsman agreed to stop manufacturing and selling the patented machines.²² Kinsman continued to manufacture and sell the machines in violation of the agreement, however, so Parkhurst filed suit seeking an accounting for profits made from the sale of the patented machines.²³ In the suit, Parkhurst obtained a preliminary injunction against Kinsman prohibiting further sales.²⁴ Kinsman then transferred his business to Goddard, a clerk in his business, who continued to manufacture and sell the patented machines.²⁵ Parkhurst amended his complaint to name Goddard as an additional party.²⁶

On appeal, Kinsman and Goddard challenged the validity of the patent, alleging that Parkhurst was not the first inventor of the claimed invention.²⁷ The Court refused to decide the question of the validity of the patent, and instead held that Kinsman and Goddard were estopped from alleging invalidity.²⁸ The Court reasoned that the validity of the patent did not affect the profits Kinsman and Goddard had received on the patented machines, and thus, the profits could not be used to avoid an accounting. Specifically, the Court stated that:

[e]ven where money has been received, either by an agent or a joint owner, by force of a contract which was illegal, the agent or joint owner cannot protect himself from accounting for what was so received, by setting up the illegality of the transaction in which it was paid to him.²⁹

The rationale behind the Court's decision was fairness. Having made a profit by making and selling machines under the protection of the patent, Kinsman could not be allowed to deny the validity of that

20. *Id.* at 290.

21. *Id.* at 291–92.

22. *Id.*

23. *Id.*

24. *Id.*

25. *Kinsman v. Parkhurst*, 59 U.S. 289, 292 (1856).

26. *Id.*

27. *Id.*

28. *Id.* at 293.

29. *Id.*

patent and subsequently keep the profits he derived under the umbrella of its protection.³⁰

Almost forty years later, in *Pope Manufacturing Co. v. Gormully*, the Court again considered patent estoppel. Upon reviewing the case, it determined that the policies behind the patent laws overrode any other concerns, and that a patent licensee could not contractually agree not to challenge the validity of a patent.³¹

Gormully had licensed several patents from Pope Manufacturing subject to certain conditions, e.g. Gormully would not infringe any of the specified non-licensed patents and would not challenge their validity.³² Pope Manufacturing sought to specifically enforce the contract, but the Court refused to do so because the provision at issue was against public and patent policies.

It is as important to the public that competition should not be repressed by worthless patents, as that the patentee of a really valuable invention should be protected in his monopoly; and it is a serious question whether public policy permits a man to barter away beforehand his right to defend unjust actions or classes of actions, though, in an individual case, he may doubtless assent that a judgment be rendered against him, even without notice.³³

Ultimately the Court concluded that “[w]ith regard to all such matters of public policy, it would seem that no man can bind himself by estoppel not to assert a right which the law gives him on reasons of public policy.”³⁴ This reasoning was to remain a theme with the Court well into the twentieth century.

2. *The Supreme Court Undermines the Assignor Estoppel Doctrine*

Though numerous lower courts had applied the doctrine of assignor estoppel since the time of *Pope Manufacturing*, the Supreme Court did not address the specific question of assignor estoppel until

30. *Id.*

31. 144 U.S. 224, 233 (1892) (stating that “[t]he real question is whether the defendant can estop himself from disputing patents which may be wholly void, or to which the plaintiff may have no shadow of title.”).

32. *Id.* at 224 n.1 (The contract provision at issue stated that Gormully would not infringe the non-licensed patents, “nor in any way, either directly or indirectly, dispute or contest the validity of the [patents], or either of them or the title thereto of [Pope], but will aid and morally assist [Pope] in maintaining public respect for and preventing infringements upon the same.”).

33. *Id.* at 234.

34. *Id.* at 235 (quoting *Crane v. French*, 38 Miss. 503, 532 (1860)) (alteration in original).

its decision in *Westinghouse Electric & Manufacturing Co. v. Formica Insulation Co.*³⁵ in 1924. At that time, the Court acknowledged that assignor estoppel had become “the general rule,” but it found reason in the patent laws to create an exception to the rule.³⁶

Westinghouse employed a mechanical engineer, O’Connor, who invented a method for manufacturing composite electric insulation materials.³⁷ In accordance with his employment agreement, O’Connor assigned his invention to Westinghouse, and with the help of Westinghouse’s legal department, he prepared a written disclosure for Westinghouse that was used in the patent application.³⁸ O’Connor left Westinghouse while the application was pending in order to form a new partnership.³⁹ That partnership was ultimately incorporated as the Formica Insulation Company, and it manufactured articles using the claimed method.⁴⁰

In deciding the case, the Court noted that assignor estoppel required that “an assignor of a patent right [be] estopped to attack the utility, novelty or validity of a patented invention which he has assigned or granted as against any one claiming the right under his assignment or grant,”⁴¹ and stated that it “[would] not now lightly disturb a rule well settled by forty-five years of judicial consideration and conclusion.”⁴² Such constraints did not deter the Court from limiting the well-established rule, however.

In applying the doctrine, the Court followed the example of several lower courts and analogized assignor estoppel to estoppel by deed. Estoppel by deed prevents a grantor of a deed of land from later challenging the title to that property.⁴³ Similarly, assignor estoppel works to prevent a patent assignor from subsequently attacking the validity of the patent.⁴⁴ Significantly, the Court found the estoppel by deed analogy to be imperfect: while the boundaries of a tract of land are easily identified, the same cannot be said for the

35. 266 U.S. 342, 349 (1924).

36. *Id.* at 353, 355.

37. *Id.* at 345.

38. *Id.*

39. *Id.* at 346.

40. *Id.*

41. *Westinghouse Elec. & Mfg. Co. v. Formica Insulation Co.*, 266 U.S. 342, 349 (1924).

42. *Id.*

43. *Id.* at 350.

44. *Id.*

scope of a patent.⁴⁵ The analogy fails to an even greater extent when the assignment is made before the patent issues.

When the assignment is made before [the] patent [is granted], the claims are subject to change by curtailment or enlargement by the Patent Office with the acquiescence or at the instance of the assignee, and the extent of the claims to be allowed may ultimately include more than the assignor intended to claim. This difference might justify the view that *the range of relevant and competent evidence in fixing the limits of the subsequent estoppel should be more liberal than in the case of an assignment of a granted patent.*⁴⁶

Though the Court declined to decide whether a more liberal standard might apply in the case of a pre-issue assignment, it held that, regardless of the timing of the assignment, the assignor was permitted to use the state of the art "to construe and narrow the claims of the patent."⁴⁷ While the Court believed that its revision of the rule might be a nice distinction, it felt it was also a workable one.⁴⁸

The Court's *state of the art* exception allowed assignors to use the state of the art to narrow claim scope by identifying those elements which were not new, and thus, not assigned.⁴⁹ This enabled an assignor to avoid infringement if he did not practice the new elements. In *Formica*, the result of applying this exception was that O'Connor and Formica were able to effectively narrow the scope of the claims and avoid infringement without having to address the validity of the patent since their method did not include the inventive elements.⁵⁰

The upshot of the Court's decision in *Formica* was that although an assignor could not directly attack the validity of the assigned patent, the prior art could be used to the same effect to narrow the scope of the claimed invention so as to avoid claims of infringement.

It would be another twenty-five years before the Supreme Court returned to the question of assignor estoppel, in *Scott Paper Co. v.*

45. *Id.*

46. *Id.* at 353 (emphasis added).

47. *Westinghouse Elec. & Mfg. Co. v. Formica Insulation Co.*, 266 U.S. 342, 351 (1924).

48. *Id.*

49. *Id.*

50. *Id.* at 354-55. As the Court observed in a subsequent decision, "[*Formica*] thus sustained the defense of noninfringement by restricting the claims by reference to the prior art, and by holding in effect that the invention assigned was not as broad in scope as the claims would otherwise on their face define it to be." *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249, 253 (1945).

Marcalus Manufacturing Co., Inc.,⁵¹ only to further undercut application of the doctrine. While employed by Scott Paper, Marcalus invented a method and machine for mounting a cutting strip on the edge of a box blank, which he assigned to Scott Paper.⁵² After the patent issued, Marcalus left Scott Paper to form his own company, Marcalus Manufacturing, which made and sold box blanks with a cutting edge.⁵³ When charged with infringement, Marcalus sought to rely on an expired prior art patent.⁵⁴ The prior art reference was not intended to anticipate and thus invalidate the patent, but rather, to establish noninfringement as suggested by *Formica*.⁵⁵

The parties disputed whether assignor estoppel as described in *Formica* applied, and what the logical scope of the doctrine actually was.⁵⁶ Scott Paper argued that the “distinction” made by the *Formica* Court between using the state of the art to narrow the claims but not invalidate them was merely semantic, and that it amounted to an illegitimate attack on the patent’s validity.⁵⁷ In contrast, Marcalus argued that the rationale of *Formica* should be followed to its logical conclusion, and that an assignor should be able to narrow the scope of the asserted claims to only those elements of the claimed invention, whether inventive or not, which were not found in the prior art.⁵⁸ The Court in *Scott Paper*, however, refused to “pursue such logical refinements,” stating that, “[t]o whatever extent [assignor estoppel] may be deemed to have survived the *Formica* decision or to be restricted by it, we think that case is not controlling here. For other considerations are dispositive of this case”⁵⁹ The other considerations to which the Court referred were the patent laws themselves.⁶⁰

As the Court noted, Congress was appointed with the task of promoting the progress of science and the useful arts, and it chose to do so by providing for a “limited grant of the patent monopoly in return for the full disclosure of the patented invention and its

51. *Scott Paper*, 326 U.S. at 249.

52. *Id.* at 250–51.

53. *Id.* at 251.

54. *Id.*

55. *Id.*

56. *Id.* at 253–54.

57. *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249, 253 (1945).

58. *Id.* at 253–54.

59. *Id.* at 254.

60. *Id.*

dedication to the public on the expiration of the patent.”⁶¹ In considering the true policy behind the patent laws, the Court determined that the laws were intended to secure for the public the benefit of new and innovative ideas, not only by allowing inventors the right to make or employ their ideas, but by ensuring that the consuming public received the benefits of such open use of the ideas.⁶² The Court explained how this policy impacted the doctrine of assignor estoppel by finding:

[i]t is . . . apparent that the patent laws preclude the patentee of an expired patent and all others . . . from recapturing any part of the former patent monopoly; for those laws dedicate to all the public the ideas and inventions embodied in an expired patent. . . . It follows that the patent laws preclude the petitioner assignee from invoking the doctrine of estoppel, as a means of continuing as against respondent, his assignor, the benefit of an expired monopoly, and they preclude the assignor from estopping himself from enjoying rights which it is the policy of the patent laws to free from all restrictions.⁶³

Although the Court acknowledged that the doctrine had its origins in fairness and justice,⁶⁴ in view of the considerations supporting the patent laws the Court held that even though an assignor could not attack the validity of an assigned patent, he could use the prior art to show that his accused product was embodied in an expired patent.⁶⁵

Notably, Justice Frankfurter dissented from the majority, arguing that fairness and justice required application of assignor estoppel without exception. Further, if in fact the patent laws should take precedence, it was up to Congress to take appropriate action, not the Court.⁶⁶

The dissent in *Scott Paper* notwithstanding, the apparent end of assignor estoppel came with the decision in *Lear, Inc. v. Adkins*.⁶⁷ In

61. *Id.* at 255 (citing *Grant v. Raymond*, 31 U.S. 218, 241–42 (1832); *Gill v. Wells*, 89 U.S. 1 (1874); *Bauer & Cie v. O'Donnell*, 229 U.S. 1 (1912); and *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 510–11 (1916)).

62. *Id.*

63. *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249, 256–57 (1945) (citations omitted).

64. *Id.* at 251 (stating that “[i]ts basic principle is said to be one of good faith, that one who has sold his invention may not, to the detriment of the purchaser, deny the existence of that which he has sold.”).

65. *Id.* at 257.

66. *Id.* at 258–64.

67. 395 U.S. 653 (1969).

Lear, the inventor, Adkins, had licensed to his employer his improvements to the method of manufacturing gyroscopes.⁶⁸ At the time the parties entered into the license agreement, Adkins had filed a patent application, but no patent had issued.⁶⁹ Two years after entering into the license agreement, and still without an issued patent, Lear found a patent it determined anticipated Adkins' invention; so it refused to pay further royalties under the license.⁷⁰ When the patent finally issued, Adkins sued Lear for infringement and Lear asserted an invalidity defense.⁷¹

The Court addressed the question of whether Lear, as licensee, could challenge the validity of the licensed patent.⁷² The Court clearly held that the doctrine of licensee estoppel was dead, and in the process reviewed the status of patent estoppel generally.⁷³ In summing up the history of patent estoppel, the Court noted that:

[d]uring [the first half of the 20th century], each time a patentee sought to rely upon his estoppel privilege before this Court, the majority created a new exception to permit judicial scrutiny into the validity of the Patent Office's grant. Long before [*Automatic Radio Manufacturing Co. v. Hazeltine Research, Inc.*] was decided, the estoppel doctrine had been so eroded that it could no longer be considered the "general rule," but was only to be invoked in an ever-narrowing set of circumstances.⁷⁴

The Court went on to review the restrictions imposed on the assignor estoppel doctrine by its earlier decisions, including *Formica* and *Scott Paper*, and specifically noted that the *Scott Paper* decision had "undermined the very basis of the 'general rule' [of assignor estoppel]."⁷⁵

IV. REVIVAL AND EXPANSION OF ASSIGNOR ESTOPPEL BY THE FEDERAL CIRCUIT

Although *Lear* seemed to clearly say that assignor estoppel was no longer a viable doctrine, its discussion was, in effect, dicta, as the case specifically addressed the related doctrine of licensee estoppel.⁷⁶

68. *Id.* at 657.

69. *Id.* at 657–58.

70. *Id.* at 659.

71. *Id.* at 658–60.

72. *Id.* at 662.

73. *Lear, Inc. v. Adkins*, 395 U.S. 653, 671 (1969).

74. *Id.* at 664.

75. *Id.* at 666.

76. *Id.* at 656.

The Federal Circuit even noted in *Diamond Scientific Co. v. Ambico, Inc.*,⁷⁷ that the Supreme Court had "sapped much of the vitality, if not the logic, from the assignor estoppel doctrine."⁷⁸ The lower courts, however, were not clear on what rule to apply when an assignee tried to invoke assignor estoppel to bar an invalidity claim. Though numerous federal courts found that the doctrine was no longer viable,⁷⁹ many still applied the doctrine to prevent assignors from asserting invalidity defenses. The Federal Circuit responded by reviving the doctrine with a vengeance.

In 1988, the Federal Circuit took up the issue of assignor estoppel in *Diamond Scientific*. While employed by Diamond Scientific, Dr. Welter developed a gastroenteritis vaccine for swine.⁸⁰ Dr. Welter assigned his invention to Diamond Scientific, but continued to participate in the prosecution of the patent application, including signing an inventor's oath.⁸¹ Shortly thereafter, Dr. Walter left Diamond Scientific to form his own company, Ambico, and began manufacturing a gastroenteritis vaccine for swine.⁸²

While chiding the Supreme Court for failing to give a clear or definitive opinion regarding the viability of assignor estoppel, and noting that the Court had managed to sidestep the issue each time it arose, the *Diamond Scientific* court held that the doctrine still applied and that Dr. Welter and Ambico were estopped from challenging the validity of the assigned patents.⁸³

The Federal Circuit acknowledged the exceptions carved out by the Supreme Court in *Formica* and *Scott Paper*, but did not find such precedent entirely applicable. For example, the Federal Circuit noted

77. 848 F.2d 1220 (Fed. Cir. 1988).

78. *Id.* at 1223.

79. *Id.* (stating that "[a]t least five other courts have indicated their belief that assignor estoppel is no longer the prevailing rule of law." (citing *Coastal Dynamics Corp. v. Symbolic Displays, Inc.*, 469 F.2d 79 (9th Cir. 1972) (per curiam); *Contour Chair Lounge Co. v. True-Fit Chair, Inc.*, 648 F. Supp. 704 (E.D. Mo. 1986); *Interconnect Planning Corp. v. Feil*, 543 F. Supp. 610 (S.D.N.Y. 1982); *Marvacon Indus. v. Thermacon Indus.*, 209 U.S.P.Q. 932 (D.N.J. 1980); *Nat'l Welding Equip. Co. v. Hammon Precision Equip. Co.*, 165 F. Supp. 788 (N.D. Cal. 1958)).

80. *Id.* at 1222.

81. *Id.* at 1225.

82. *Id.* at 1222.

83. *Diamond Scientific Co. v. Ambico, Inc.*, 848 F.2d 1220, 1225-27 (1988) (stating that "[a]lthough the doctrine of assignor estoppel may no longer be a broad equitable device susceptible of automatic application, the case before us is appropriate for its use. When the inventor-assignor has signed the Oath, Power of Attorney and Petition, which attests to his belief in the validity of the patents, and has assigned the patent rights to another for valuable consideration, he should be estopped from defending patent infringement claims by proving that what he assigned was worthless.").

the Court's finding in *Scott Paper* that application of assignor estoppel was often in conflict with the patent laws,⁸⁴ as well as the Supreme Court's statement in *Lear* that "[t]he *Scott* exception had undermined the very basis of the [estoppel] 'general rule.'"⁸⁵ Neither decision was sufficient to convince the Federal Circuit that the doctrine of assignor estoppel was dead, though the court was reduced to relying on several trivial differences in order to distinguish its decision from the established precedent.

The Federal Circuit found the *Lear* decision not helpful as it identified what it called "one important distinction between assignors and licensees"—while a licensee was faced with the possibility of paying ongoing royalties for an invalid patent, the assignor had already been fully compensated for his patent rights.⁸⁶

The court reasoned that assignor estoppel still existed as an equitable doctrine which worked to prevent unfairness and injustice, and thus held that "despite the public policy encouraging people to challenge potentially invalid patents, there are still circumstances in which the equities of the contractual relationships between the parties should deprive one party (as well as others in privity with it) of the right to bring that challenge."⁸⁷ The court found this to be true regardless of when the assignment took place, stating that an inventor "assigned the *rights* to his invention, irrespective of the particular *language* in the claims describing the inventions when the patents were ultimately granted."⁸⁸

Shortly after its decision in *Diamond Scientific*, the Federal Circuit expanded its position regarding assignor estoppel in *Shamrock Technologies, Inc. v. Medical Sterilization, Inc.*⁸⁹ While *Diamond Scientific* addressed assignor estoppel as a bar to defenses of inadequate disclosure, anticipation, and obviousness,⁹⁰ *Shamrock Technologies* held that assignor estoppel also barred equitable defenses such as inequitable conduct.⁹¹

Luniewski, the joint-inventor of the patent at issue, assigned his invention to Shamrock Technologies in accordance with his

84. *Id.* at 1223.

85. *Id.* (quoting *Lear, Inc. v. Adkins*, 395 U.S. 653, 666 (1969)).

86. *Id.* at 1224. The flaws in this argument and others are discussed *infra* in Section VI.1.

87. *Id.* at 1225.

88. *Id.* at 1226.

89. 903 F.2d 789 (Fed. Cir. 1990).

90. *Diamond Scientific Co. v. Ambico, Inc.*, 848 F.2d 1220, 1225 (1988).

91. *Shamrock Techs.*, 903 F.2d at 794.

employment agreement.⁹² Luniewski reviewed the patent application and signed the inventor's oath, in which he attested to the inventorship of the patent and the scope of Shamrock Technologies' prior work in the field of the invention.⁹³ Luniewski immediately left the company thereafter.⁹⁴ The inequitable conduct alleged by defendants was, in part, that the inventor had been misled as to the scope of Shamrock's earlier activities in the field of the invention.⁹⁵ Because the facts supporting the inequitable conduct defense were contradicted by the inventor's declaration, the court found that "they render[ed] the defense nonviable and the equitable doctrine of assignor estoppel bar[red] its assertion."⁹⁶

The Federal Circuit's willingness to apply the doctrine continued to grow in *Q.G. Products, Inc. v. Shorty, Inc.*,⁹⁷ decided in 1993. In this case, the court found that following a reassignment of a patent application to the original inventor, the assignor was estopped from attacking the validity of a patent which issued as a continuation-in-part from the assigned application.⁹⁸

Rudolphe Simon was the inventor of a device for fastening corner strips to wall boards, and filed a patent application based on his invention.⁹⁹ While the application was pending, Simon assigned the invention to Shorty, in exchange for \$20,000 and Shorty stock.¹⁰⁰ Three months later, Shorty reassigned the application to Simon in exchange for \$20,000 and return of the Shorty stock.¹⁰¹ Simon subsequently abandoned the application, but had filed a continuation-in-part application which resulted in issuance of the allegedly infringed patent.¹⁰² In defense to the infringement allegation, Shorty challenged the inventorship of the patent, claiming that one of the owners of Shorty should have been named as an inventor.¹⁰³

92. *Id.* at 790.

93. *Id.* at 795.

94. *Id.* at 790.

95. *Shamrock Techs., Inc. v. Med. Sterilization, Inc.*, 903 F.2d 789, 795 (Fed. Cir. 1990).

96. *Id.* (The court did note, however, that "in a proper case general principles of equity may preclude use of assignor estoppel to bar a viable equitable defense arising from post-assignment events." It did not indicate what a "proper case" might be.).

97. 992 F.2d 1211 (Fed. Cir. 1993).

98. *Id.* at 1214-15.

99. *Id.* at 1212.

100. *Id.*

101. *Id.*

102. *Id.*

103. *Q.G. Prods., Inc. v. Shorty, Inc.*, 992 F.2d 1211, 1212 (Fed. Cir. 1993).

In finding that the equities demanded application of assignor estoppel, the court reasoned that “[a]lthough Shorty’s assignment merely returned the parties to their pre-incorporation financial posture, Shorty nevertheless received value for the assignment. Thus Shorty represented that the assigned property had value.”¹⁰⁴ Though not explicitly stated by the court, the implication is that since Shorty represented to Simon that the assigned application had value, and it received value for the assignment, fairness and justice dictate that Shorty cannot subsequently attack the value of that which it assigned. Significantly, the court also found application of assignor estoppel appropriate as the alleged basis for invalidity—the failure to identify all inventors—was one which was known to Shorty at the time it reassigned the patent to Simon.¹⁰⁵

Finally, the court considered whether assignor estoppel should apply to a patent that issued as a continuation-in-part from the assigned application. The court referred to its decision in *Diamond Scientific*, where it observed that “[the assignor] assigned the rights to his invention, irrespective of the particular language in the claims describing the inventions when the patents were ultimately granted.”¹⁰⁶ The court went on to emphasize that the assignment was not limited to what was disclosed in the patent application, but embraced the entire invention.¹⁰⁷ In this case, the court reasoned, the continuation patent “merely elaborate[d]” on the assigned invention, and, as such, Shorty was estopped from challenging the validity of the continuation patent.¹⁰⁸

V. SUMMARY OF THE HISTORY AND LAW OF ASSIGNOR ESTOPPEL

Despite an apparent early acceptance of the principles behind assignor estoppel, the Supreme Court has historically disfavored the doctrine. As of 1970, after the Supreme Court decided *Lear*, it appeared that the doctrine of assignor estoppel had only a strictly limited application, if any. The Court consistently chipped away at the foundations of assignor estoppel for over one hundred years, until it had managed to completely undermine the doctrine. As the *Lear* Court observed, “[t]he estoppel rule was first stringently limited” in

104. *Id.* at 1213.

105. *Id.*

106. *Id.* at 1214 (quoting *Diamond Scientific Co. v. Ambico, Inc.*, 848 F.2d 1220, 1226 (Fed. Cir. 1988)).

107. *Id.* at 1214.

108. *Id.* at 1215.

Formica and subsequently had its legs cut out from under it in *Scott Paper*.¹⁰⁹

The landscape changed in the 1980's, however, with the creation of the Federal Circuit and its decision to address the viability of assignor estoppel in 1988. The court's decision in *Diamond Scientific* revived the dying doctrine and gave it new life. Assignor estoppel has been invoked with new vigor in the last twenty-five years, and the Federal Circuit has expanded the doctrine such that it is applied more expansively than in any time since it was first adopted by the American courts.

VI. THE FEDERAL CIRCUIT'S DECISIONS REPRESENT AN UNJUSTIFIED ABOUT-FACE FROM THE POSITION ADVOCATED BY THE SUPREME COURT

By the time the Federal Circuit was created in 1982, Supreme Court decisions dealing with assignor estoppel had made clear that although the doctrine might still exist, it was in name only. Relying on the policies behind the patent laws, the Court had created sufficient exceptions to the doctrine so as to make it unworkable. Moreover, the Court's arguments, if taken to their logical conclusion, undermined the foundations of assignor estoppel.

If [as asserted in *Scott*] patent policy forbids estoppel when the old owner attempts to show that he did no more than copy an expired patent, why should not the old owner also be permitted to show that the invention lacked novelty because it could be found in a technical journal or because it was obvious to one knowledgeable in the art? . . . The *Scott* exception had undermined the very basis of the 'general rule.'¹¹⁰

Such precedent notwithstanding, the Federal Circuit in *Diamond Scientific* revived the doctrine of assignor estoppel. Though couching its decision in terms of the demands of equities in the case before it, the *Diamond Scientific* court effectively reversed the Supreme Court's rulings on application of assignor estoppel. Moreover, the Federal Circuit has continued during the past twenty-five years to expand its application of the doctrine.

109. *Lear, Inc. v. Adkins*, 395 U.S. 653, 664-66 (1969).

110. *Id.* at 666.

1. The Federal Circuit's Effective Reversal from Supreme Court Precedent Was Contrived and Unwarranted

The court's attempt to distinguish the case before it from the Supreme Court precedent was based on tenuous and sometimes irrelevant distinctions and its arguments, in fact, run contrary to the rationale put forth by the Supreme Court in several respects:

- (1) The *Diamond Scientific* court argued that *Lear* dealt with licensee estoppel, and, consequently, the rationale that a licensee of an invalid patent might have to continue to pay royalties did not apply to the assignor who had already been paid in full.¹¹¹ In doing so, however, the *Diamond Scientific* court disregarded the discussion in *Lear* about assignor estoppel being based on patent policies, not royalty payments;
- (2) The *Diamond Scientific* court applied assignor estoppel to prevent unfairness and injustice, citing to the dissent in *Scott Paper*,¹¹² but it ignored the majority's holding that patent law policies were the controlling factor;
- (3) The *Diamond Scientific* court explicitly stated that it was not confined to application of the doctrine as analogous to estoppel by deed.¹¹³ As a result, it was able to redefine the scope of the assignment as one of *rights* in an invention, rather than simply the language of the patent, and so broadened the scope of the assignment;
- (4) In broadening the scope of an assignment, the court avoided the rationale behind *Formica* and effectively weakened the "state of the art" exception; and
- (5) The *Diamond Scientific* court placed significant emphasis on assignors signing the inventor's oath,¹¹⁴ but ignored the practical realities associated with the oath in the business world, where employees assign their inventions to their employers as a matter of course and have no real say in the actual prosecution of the patents.

111. *Diamond Scientific Co. v. Ambico, Inc.*, 848 F.2d 1220, 1224 (Fed. Cir. 1988).

112. *Id.*

113. *Id.* at 1225.

114. *Id.* at 1225, 1227.

a. The Federal Circuit's Effort to Distinguish Diamond Scientific from *Lear* Ignored the Weight of Supreme Court Precedent

In choosing to ignore the import of the *Lear* decision, the Federal Circuit justified its conclusions by distinguishing assignor estoppel from what it perceived to be the rationale behind the holding in *Lear*. Specifically, the court rationalized that:

[i]n examining *Lear*, one important distinction between assignors and licensees becomes apparent—a distinction that cautions against the automatic application to assignment cases of the rationale underlying *Lear* and licensees. The public policy favoring allowing a licensee to contest the validity of the patent is not present in the assignment situation. Unlike the licensee, who, without *Lear* might be forced to continue to pay for a potentially invalid patent, the assignor who would challenge the patent has already been fully paid for the patent rights.¹¹⁵

While the court's statement may well be accurate, it also completely disregards the Supreme Court's discussion about patent estoppel generally, and its prior decisions on assignor estoppel in particular. The Supreme Court began its discussion on estoppel, in fact, by noting that, as early as 1892 in *Pope Manufacturing*, the Court had found the doctrine of patent estoppel "inequitable."¹¹⁶ The Court went on to discuss the limitations it had placed on the doctrine of assignor estoppel in *Formica* and *Scott Paper*, including its refusal in *Scott Paper* to sanction the application of assignor estoppel. It concluded by noting that:

[i]f patent policy forbids estoppel when the old owner attempts to show that he did no more than copy an expired patent, why should not the old owner also be permitted to show that the invention lacked novelty because it could be found in a technical journal or because it was obvious to one knowledgeable in the art?¹¹⁷

The net result of the Court's prior decisions was to undermine the very basis of assignor estoppel.¹¹⁸ Moreover, this conclusion was reached independently of any comments by the *Lear* court regarding the inadvisability of requiring licensees to continue paying royalties

115. *Id.* at 1224.

116. *Lear, Inc. v. Adkins*, 395 U.S. 653, 663–64 (1969) (citing *Pope Mfg. Co. v. Gormully*, 144 U.S. 224, 234 (1892)).

117. *Lear*, 395 U.S. at 666.

118. *Id.*

on invalid patents, making the Federal Circuit's distinction between assignors and licensees moot.

The Federal Circuit failed to adequately address the Supreme Court's analysis of the viability of assignor estoppel, and instead chose to rely on the specious distinction that *Lear* was premised on the inequities of a licensee paying ongoing royalties on an invalid patent. This purported reason for disregarding the rationale of *Lear* is perhaps more unsatisfactory when taken in the context of real world transactions. For example, what happens in the case of an assignor who also takes a license under the patent, whether as part of the original assignment or as a result of litigation? In either circumstance, if the assignor is estopped from challenging the validity of the assigned patent he will be required to pay continuing royalties on a potentially invalid patent.

b. The Federal Circuit's Reliance on the Principles of Fairness and Justice Represent an Unjustifiable Deviation from Supreme Court Precedent

The *Diamond Scientific* court emphasized the fact that its application of the assignor estoppel doctrine was intended to prevent unfairness and injustice.

[W]e believe that the primary consideration in now applying the doctrine is the measure of unfairness and injustice that would be suffered by the assignee if the assignor were allowed to raise defenses of patent invalidity. Our analysis must be concerned mainly with the balance of equities between the parties.¹¹⁹

In fact, the court even cites to *Scott Paper* to bolster its position. Significantly, the court's reference to *Scott Paper* was to Justice Frankfurter's dissent. The Federal Circuit's decision that the prevention of unfairness and injustice override any concerns about the patent laws and their policies as identified by the Supreme Court is a clear deviation from Supreme Court precedent, particularly in light of the fact that the fairness argument in favor of assignor estoppel had previously been considered by the Supreme Court. The simple fact that such arguments were raised in the *Scott Paper* dissent indicates that the Court had considered principles of fairness and injustice at the time it rendered its decision, and found instead that the patent laws and the public interests they sought to protect took precedence in the case of assignor estoppel.

119. *Diamond Scientific Co. v. Ambico, Inc.*, 848 F.2d 1220, 1225 (Fed. Cir. 1988).

It is not necessary, however, to rely on such inferences. The Supreme Court expressly reached the conclusion that contract principles and a sense of fairness justified application of the doctrine of assignor estoppel, but did not operate to override legislative authority.

It is thus apparent that the patent laws preclude the patentee of an expired patent and all others . . . from recapturing any part of the former patent monopoly; for those laws dedicate to all the public the ideas and inventions embodied in an expired patent. They do not contemplate that anyone by contract or any form of private arrangement may withhold from the public the use of an invention for which the public has paid by its grant of a monopoly and which has been appropriated to the use of all. The rights in the invention are then no longer subject to private barter, sale, or waiver. . . . For no more than private contract can estoppel be the means of successfully avoiding the requirements of legislation enacted for the protection of a public interest. *The interest in private good faith is not a universal touchstone which can be made the means of sacrificing a public interest secured by an appropriate exercise of the legislative power.* The patent laws preclude us from saying that the patent assignment, which they authorize, operates to estop the assignor from asserting that which the patent laws prescribe, namely, that the invention of an expired patent is dedicated to the public, of which the assignor is a member.¹²⁰

The Supreme Court had also determined that the public interest in enjoying the benefits of the patent laws overrode any potential injustice presented by an assignor attacking the validity of the patent he had assigned. As such, the Federal Circuit's decision in *Diamond Scientific* can be nothing other than a conscious choice to ignore the Supreme Court precedent.

c. The Federal Circuit's Holding That an Assignment is of the "Rights" to an Invention and Not the "Language" of the Patent Undermined the Supreme Court Decisions on Assignor Estoppel

The Federal Circuit further justified its departure from Supreme Court precedent by concluding that it was not bound by the Court's analogy of assignor estoppel to estoppel by deed. "[T]he extent to which the concept of an estoppel by deed may or may not shape the doctrine of assignor estoppel, though it may often play a significant

120. *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249, 256-57 (1945) (emphasis added) (citations omitted).

role, need not confine our application of the doctrine.”¹²¹ The consequence of this view of assignor estoppel as being something greater than a patent version of estoppel by deed was to enable the Federal Circuit to increase the scope of an assignment by redefining just what is assigned.

The Federal Circuit’s decision in *Diamond Scientific* is a series of seemingly small shifts away from Supreme Court precedent which resulted in a significant change of direction with respect to viability of the assignor estoppel doctrine. One such subtle yet significant distinction was the court’s insistence that an assignor grants her *rights* in an invention, rather than merely what is claimed in the patent.¹²²

The *Formica* Court did not frame the issue the same way the Federal Circuit did, but its decision makes clear that the Court considered an assignment to be the subject matter of the invention as claimed in the patent because “[t]he grantor purports to convey the right to exclude others . . . from a described and limited field of the useful arts.”¹²³ Based on its analogy of assignor estoppel to estoppel by deed, the Court reached this conclusion since it was necessary to define the bounds of that which was conveyed. The *Formica* Court explained the analogy, commenting that:

[t]he analogy between estoppel in conveyances of land and estoppel in assignments of a patent right is clear. If one lawfully conveys to another a patented right to exclude the public from the making, using and vending of an invention, fair dealing should prevent him from derogating from the title he has assigned, just as it estops a grantor of a deed of land from impeaching the effect of his solemn act as against his grantee.¹²⁴

However, the Court went on to explain where the analogy failed and why the doctrine of assignor presented a particular problem:

The grantor purports to convey the right to exclude others, in the one instance, from a defined tract of land, and in the other, from a described and limited field of the useful arts. The difference between the two cases is only the practical one of fixing exactly what is the subject matter conveyed. A tract of land is easily determined by survey. Not so the scope of a patent right for an invention.¹²⁵

121. *Diamond Scientific*, 848 F.2d at 1225.

122. *Id.* at 1226.

123. *Westinghouse Elec. & Mfg. Co. v. Formica Insulation Co.*, 266 U.S. 342, 350 (1924).

124. *Id.*

125. *Id.*

Moreover, the Court's further comments made clear that estoppel's scope was even more limited as to pre-patent issue assignments than in the case of post-issue assignments.¹²⁶

The Federal Circuit, on the other hand, determined that an assignment was of the *rights* in an invention, and was not strictly limited by the language of the patent. Once the Federal Circuit determined that it was no longer confined to the estoppel by deed analogy, it felt free to redefine the scope of an assignment. If assignor estoppel is not strictly a patent version of estoppel by deed, then it is not necessary to define the bounds of the assignment by reference to the claims. Once the court no longer considered an assignment to be defined by the patent claims, it was free to consider assignor estoppel in a new light. Thus, it defined an assignment to be of the *rights* in an invention, unconstrained by the patent language. As a result of this broadened definition of assignment, not only was the court able to limit the "state of the art" exception to assignor estoppel pursuant to the doctrine, it also proceeded to apply assignor estoppel in increasingly wider sets of circumstances.

d. The Federal Circuit's Redefinition of the Scope of an Assignment Allowed the Court to Weaken the Supreme Court's Exceptions to Assignor Estoppel

In looking beyond what it considered to be the narrow estoppel by deed analogy, the Federal Circuit was able to weaken the exceptions to assignor estoppel created by the Supreme Court in *Formica* and *Scott Paper*.

First, the Supreme Court's reliance on the estoppel by deed analogy led to its conclusion that the scope of an assignment, i.e. the claims, needed to be defined, which in turn led the Court to create its first notable exception to assignor estoppel.¹²⁷ Specifically, the Court determined that an assignor, although estopped from attacking the validity of the assigned patent, could rely on the "state of the art" at the time of the assignment to narrow and construe the claims, thus potentially avoiding infringement.¹²⁸

The Federal Circuit weakened this "state of the art" exception by determining that an assignment was of an inventor's rights in an invention, rather than the invention as claimed in the language of the

126. *Id.* at 353.

127. *Id.* at 342.

128. *Id.* at 351.

patent.¹²⁹ If assignor estoppel was not limited by the scope of the construed claims, but was instead found to incorporate all aspects of his “inventions” regardless of whether they were expressly described in the patent, then it was of little benefit to an assignor to try to narrow the scope of the claims.

The *Formica* Court’s “state of the art” exception was further limited by the Federal Circuit’s position as to the timing of the assignment. Though the Supreme Court intended the exception to be equally if not more applicable in the case of a pre-issue assignment, the Federal Circuit held the reverse to be true.¹³⁰ Specifically, *Formica* expressly declined to restrict its “state of the art” exception to assignor estoppel based upon the timing of the assignment. “We can well be clear, however, that if it is proper to limit the estoppel available for an assignee after patent as against his assignor by reference to the state of the art, a fortiori is such reference relevant where the estoppel is sought by the assignee before patent.”¹³¹

In contrast, the Federal Circuit interpreted this exception as applying only to amendments made after assignment.

To the extent that *Diamond* may have broadened the claims in the patent applications (after the assignments) beyond what could be validly claimed in light of the prior art, [*Formica*] may allow appellants to introduce evidence of prior art to narrow the scope of the claims of the patents, which may bring their accused devices outside the scope of the claims of the patents in suit.¹³²

In deciding that it was irrelevant whether the patent had issued at the time of the assignment in question, the *Diamond Scientific* court relied on its asserted premise that the inventor assigned “the rights to his invention, irrespective of the particular *language* in the claims describing the inventions when the patents were ultimately granted.”¹³³ As evidenced by the Federal Circuit’s subsequent decisions, this distinction significantly expanded the scope of the estoppel defense. For example, in *Q.G. Products*, where an assignee had reassigned a patent application to the original inventor, the assignor was prohibited from challenging the validity of a continuation patent. The court reasoned that the continuation claimed an invention developed prior to the original assignment, even though

129. *Diamond Scientific Co. v. Ambico, Inc.*, 848 F.2d 1220, 1226 (Fed. Cir. 1988).

130. *Id.*

131. *Westinghouse*, 266 U.S. at 353.

132. *Diamond Scientific*, 848 F.2d at 1226.

133. *Id.*

not expressly claimed in the original patent application, and therefore, it was included in the original assignment of the *rights* to the invention.¹³⁴

In short, by deciding that it was not limited by the Supreme Court's analogy of assignor estoppel to estoppel by deed, the Federal Circuit opened the door for a drastic change of direction in the evolution—or extinction—of the doctrine. One consequence of this doctrinal shift was that the “state of the art” exception was severely curtailed.

e. The Federal Circuit's Emphasis on the Signing of the Inventor's Oath is Unwarranted and Misplaced

The linchpin of the Federal Circuit's argument that the prevention of unfairness and injustice require application of assignor estoppel is that the inventor-assignor signed an inventor's oath.

When the inventor-assignor has signed the Oath, Power of Attorney and Petition, which attests to his belief in the validity of the patents, and has assigned the patent rights to another for valuable consideration, he should be estopped from defending patent infringement claims by proving that what he assigned was worthless.¹³⁵

The court's holding is an unsettling statement of the law for several reasons, including its disregard for the scope of an assignment as set forth in *Formica* as well as the practicalities of the patent assignment and prosecution processes.

As a preliminary matter, it is important to recognize that the inventor's oath is simply a declaration by the inventor that he has read the application and that, to the best of his knowledge at the time of signing, he is the original and first inventor of the subject matter of the application.¹³⁶ In so saying, however, the inventor is not required

134. Q.G. Prod., Inc. v. Shorty, Inc., 992 F.2d 1211, 1214 (Fed. Cir. 1993).

135. *Diamond Scientific*, 848 F.2d at 1226.

136. 37 C.F.R. § 1.63 (2002), which states in relevant part that:

(a) An oath or declaration filed under § 1.51(b)(2) as a part of a nonprovisional application must:

....

(2) Identify each inventor by full name, including the family name, and at least one given name without abbreviation together with any other given name or initial;

....

(4) State that the person making the oath or declaration believes the named inventor or inventors to be the original and first inventor or

to do any type of prior art search to confirm his belief. The inventor's oath is not a warranty as to the patentability of his invention, nor a guarantee as to the scope of the claims which may or may not ultimately issue from the patent application.¹³⁷

As discussed in more detail above, the *Diamond Scientific* decision represents a significant deviation from the Supreme Court's analysis in *Formica*. According to *Formica*, what is assigned is defined by the actual scope of the claims as issued, and as construed in view of the state of the art at the time of the invention.¹³⁸ The *Diamond Scientific* court's reliance on the signing of the inventor's oath as the circumstance requiring application of assignor estoppel, follows not from the rationale of *Formica*, but rather, from its assertion that an inventor assigns the *rights* to her invention. Where the scope of the assignment cannot be determined until after the claims have issued and subsequently been construed in view of the state of the art, the inventor's oath plays little part in determining what has been conveyed. Where an inventor's *rights* in an invention are conveyed, however, the Federal Circuit construes the oath as a further attestation by the inventor as to the value of the invention which she has assigned.

As discussed in greater detail below, at Sections VII. 2. & 3., the Federal Circuit's reasoning also appears to ignore the practicalities of assignment within the employer-employee context. The assignment agreement is in effect signed at the time the employee is hired. The assignment of any specific invention is little more than a technicality. Similarly, the application accompanying the inventor's oath is one which has more often than not been prepared by the employer, with varying degrees of input from the actual inventor. Given the nature of the oath as a fairly meaningless formality of employment, it is

inventors of the subject matter which is claimed and for which a patent is sought.

Section 1.63 further requires that the person making the declaration state that s/he has reviewed and understands the contents of the application, including the claims. See also, e.g., *General Information Concerning Patents*, a pamphlet published by the United States Patent and Trademark Office, available at <http://www.uspto.gov/web/offices/pac/doc/general/index.html> (last visited Mar. 17, 2004). ("The inventor must make an oath or declaration that he/she believes himself/herself to be the original and first inventor of the subject matter of the application, and he/she must make various other statements required by law and various statements required by the USPTO rules.")

137. Hatfield, *supra* note 2, at 268–69.

138. Westinghouse Elec. & Mfg. Co. v. Formica Insulation Co., 266 U.S. 342, 350–51 (1924).

difficult to understand the importance placed by the Federal Circuit on the oath.

2. *The Federal Circuit's Decisions After Diamond Scientific Have Further Expanded the Doctrine of Assignor Estoppel and Curtailed Any Exceptions*

While the *Diamond Scientific* court brought the doctrine of assignor estoppel back from the brink of death, subsequent Federal Circuit decisions have only served to further expand the application of assignor estoppel. For instance, in *Shamrock Technologies*, the Federal Circuit held that assignor estoppel helped prevent assignors from relying on equitable challenges to the validity of a patent. "We reject the contention that mere classification of a defense as equitable bars consideration of assignor estoppel."¹³⁹

In *Q.G. Products*, the Federal Circuit found that an assignor of a patent application who had reassigned the patent to the original inventor was estopped from attacking the validity of a continuation patent.¹⁴⁰ The court relied on *Diamond Scientific's* holding that an assignment is of the inventor's *rights* in an invention, finding that the invention claimed in the continuation is subject to an assignment of the inventor's *rights* to his invention, even though not expressly described in the claims of the assigned parent application.

The Federal Circuit also found that assignor estoppel must apply in actions before the International Trade Commission.¹⁴¹ The administrative law judge who originally heard the case found that application of the doctrine would be inequitable due to the potentially significant adverse effect on third parties not involved in the dispute. The Federal Circuit disagreed, however, stating that "both statutory and case law required that assignor estoppel be considered and applied."¹⁴²

Moreover, despite the court's suggestion in *Diamond Scientific* that the "state of the art" exception created in *Formica* might still be available, the court seems unwilling to apply such exceptions to an assignor's benefit. For example, in *Q.G. Products*, the court used the state of the prior art, including the inventor's own disclosures, to

139. *Shamrock Tech., Inc. v. Med. Sterilization, Inc.*, 903 F.2d 789, 794 (Fed. Cir. 1990).

140. *Q.G. Prod., Inc. v. Shorty, Inc.*, 992 F.2d 1211, 1214-15 (Fed. Cir. 1993).

141. *Intel v. United States Int'l Trade Comm'n*, 946 F.2d 821, 837 (Fed. Cir. 1991).

142. *Id.*

broaden the scope of the assignment, as opposed to limiting it to only the novel elements of the claimed invention.¹⁴³

VII. THE PRACTICAL CONCERNS AND EFFECTS OF APPLICATION OF ASSIGNOR ESTOPPEL

The Federal Circuit's revival and expansion of the doctrine of assignor estoppel presents several practical problems for inventors, employees, and employers. Employees must consider reserving their right to challenge the validity of a future patent, but are in no position to insist on such a provision. Similarly, employers must consider the inherent risks involved when hiring an employee to take charge of a product which is subsequently charged with infringing a patent invented by that same employee while at another company. Such concerns only serve to hinder the goals of the patent laws—to promote the progress of the sciences and useful arts—but have failed to overcome the Federal Circuit's sense of fair play as promulgated through the application of assignor estoppel.

1. The Doctrine of Assignor Estoppel Creates Warranties in Assignment Contracts Not Necessarily Intended By the Assignor

The assignor estoppel doctrine, particularly the Federal Circuit's holding that an assignment is of an inventor's *rights* in his invention and not of the *language* of the claims, and its emphasis of the importance of the inventor's oath, creates warranties in assignment contracts that the parties did not necessarily intend to include. The court's take on assignor estoppel in effect turns a simple assignment agreement into an absolute, and effective, warranty as to the validity of not only the patent, but the inventor's rights in his invention, whether claimed or not. Such guarantees go far beyond the terms of the typical assignment agreements.

By prohibiting an assignor from subsequently challenging the validity of the assigned patent, assignor estoppel functions as a judicially imposed warranty that the patent is valid. This warranty applies whether the assignment occurs before or after the patent issues, and despite the fact that the assignor cannot legally know the true scope of the claims or what prior art could invalidate those claims. Similarly, the effective warranty does not consider whether the inventor was familiar with the relevant prior art at the time of

143. *Q.G. Prod.*, 992 F.2d at 1214.

assignment, which is often not the case, and is even more unlikely in the case of a preinvention assignment.

As a preliminary matter, it is questionable whether an assignor can legitimately waive his right to challenge the validity of the patent.¹⁴⁴ As early as 1892, the Supreme Court recognized that there are certain rights which cannot be waived, and indicated that the public's right to free competition was one such right. The Court held that

[i]t is as important to the public that competition should not be repressed by worthless patents, as that the patentee of a really valuable invention should be protected in his monopoly; and it is a serious question whether public policy permits a man to barter away beforehand his right to defend unjust actions or classes of actions¹⁴⁵

Under the rubric created by the Federal Circuit, however, an assignor is presumed to do precisely that: waive a public right. The doctrine of assignor estoppel prevents an assignor from defending an infringement action by attacking the asserted patent's validity, which effectively introduces a waiver of an assignor's right to defend a potentially unjust action into any given assignment of patent rights.

Further, it seems the best way for an assignor to avoid being bound by such unintended warranties is to expressly reserve the right to assert an invalidity defense.¹⁴⁶ Insistence on inclusion of such an express reservation in an assignment agreement, however, is likely to cause undesirable tension between the parties to the assignment as the implication is that the assignor anticipates an infringement suit in the future.

More importantly, not all assignors are in a position to insist on such a provision. Within the employer-employee context, the employee will rarely have the bargaining power to insist on the requisite reservation. Assignment in the employment context is a routine occurrence, and the prospective employee is given little or no choice in the matter. In fact, such preinvention agreements to assignment are, for most employees, required.¹⁴⁷ Consequently, under the assignor estoppel doctrine, an employee who develops patentable

144. See *Pope Mfg. Co. v. Gormully*, 144 U.S. 224, 234 (1892).

145. *Id.*

146. See, e.g., *Mentor Graphics Corp. v. Quickturn Design Sys., Inc.*, 150 F.3d 1374, 1379 (Fed. Cir. 1998).

147. Steven Cherenky, *A Penny for Their Thoughts: Employee-Inventors, Preinvention Assignment Agreements, Property, and Personhood*, 81 CAL. L. REV. 595, 617 (1993).

subject matter will become bound by warranties as to validity and enforceability where she had no opportunity to avoid such contractual obligations other than by declining employment.

This absurdity is only made more apparent when one recognizes that the assignment was effectively made before any invention was even conceived, and that the subsequent assignment document is simply a formality. In such circumstances, the employee-inventor is effectively placed in a position of having to warrant the validity and enforceability of an invention that he had not yet even conceived. The Federal Circuit's emphasis on the significance of the inventor's oath does nothing to mitigate the contradictions inherent in the doctrine.

An employee's obligations under an employment assignment agreement generally include executing any papers necessary to the prosecution of any patent application filed by one's employer, including the inventor's oath. Moreover, the application accompanying the inventor's oath is one which has more often than not been prepared by the employer, with varying degrees of input from the actual inventor. As one commentator noted, "[r]ealistically, the Oath is largely a statutory formality. The inventor must only attest to his 'belief in the validity of the patent.' An inventor's belief about patent validity means little if the inventor knows nothing about the prior art, which is likely in cases of employee-inventors."¹⁴⁸

In view of such realities, it is hard to justify the broad use of assignor estoppel advocated by the Federal Circuit, which noted that "[d]ue to the intrinsic unfairness in allowing an assignor to challenge the validity of the patent it assigned, the implicit representation of validity contained in an assignment of a patent for value raises the presumption that an estoppel will apply."¹⁴⁹

2. The Judicially Created Assignor Estoppel Warranties Are Even More Troubling in the Context of Mandatory Preinvention Assignments

The most common form of assignment is between an inventor-employee and his employer. These assignments, sometimes referred to as preinvention assignments, are a common part and often mandatory condition of employment in today's market.¹⁵⁰ In signing a preinvention assignment agreement upon being hired, an employee

148. Hatfield, *supra* note 2, at 269.

149. *Mentor Graphics*, 150 F.3d at 1378.

150. Cherensky, *supra* note 147, at 617.

is generally agreeing to assign any future work-related inventions to his employer.

Though some of the inconsistencies associated with preinvention assignments are discussed above, one significant difficulty is that these agreements are arguably contracts of adhesion. Employees are not offered an opportunity to negotiate the terms of the preinvention assignment agreements, and must simply accept the agreement "as is" if they want the job position offered. This is particularly true in a depressed job market where competition for a limited number of positions is intense. "As a result, most commentators agree that freedom of contract does not generally exist in the employee-inventor context."¹⁵¹

Consequently, in addition to reading into assignment agreements an improper waiver of an assignor's right to challenge an unjust infringement action, the Federal Circuit is doing so in situations where the assignor has not even had an opportunity to negotiate the terms of the assignment contract and cannot be considered to have knowingly warranted the validity of any future inventions.

3. The Federal Circuit's Broad Application of Assignor Estoppel Has Unsettling Implications for Employers and Employees

The Federal Circuit's position on assignor estoppel has disturbing implications, particularly in an open and fluid technological culture such as the Silicon Valley. Much of the Silicon Valley's success, and the resultant technology explosion, is the result of high tech workers' considerable job mobility. This flexibility is due in large part to California's unfair competition laws, and the

151. *Id.* at 621 n.117 (quoting John P. Sutton, *Employment Contracts*, in LEGAL RIGHTS OF CHEMISTS AND ENGINEERS 45, 58, 62 (Warren D. Niederhauser & E. Gerald Meyer eds., 1977):

A contract of adhesion occurs when the terms are prepared entirely for the benefit of one of the parties, and the other party does not have sufficient bargaining power to alter the terms. Today the employment contract is a contract of adhesion. Whether it is enforceable or not depends on whether it is unconscionable. . . .

. . . .

. . . The problem is that unless you are a Nobel Laureate you are not going to get fair provisions into the contract. It's bargaining power that gets fair contract provisions. . . . Those in demand, like corporation presidents, can write their own tickets. Most employees cannot.).

restrictions placed on the use and enforcement of non-compete agreements.¹⁵²

Such flexibility of employment is threatened, however, by the Federal Circuit's application of assignor estoppel. While under California law an employee is free to leave one employer to work for its competitor, such movement is discouraged where the new employer is faced with the possibility that in hiring the employee, the employer will have potentially disastrous consequences in the form of assignor estoppel.

Consider the situation in which Employee, as part of an employment agreement, assigns an invention to Company A but then decides to go work for a new employer, Company B, who competes with Company A. After Employee leaves, Company A obtains a patent on Employee's inventions, most likely without Employee ever knowing whether the claims issued or what their scope might be. In the mean time, Company B has put Employee to work on a product that is subsequently charged with infringing Company A's patent. If Company B is found to be in privity with Employee,¹⁵³ then Company B will be estopped from attacking the validity and enforceability of the patent simply because Company B hired Employee and made use of his expertise in a position of some responsibility.

The potential for such damaging consequences must create greater caution and disincentives for employers to hire individuals who have a wider experience and have proven themselves to be creative and productive workers. Such consequences serve only to punish those individuals who have proven the most inventive as they suddenly become less desirable employees due to the potential for disaster that trails them.

On the flip side of the coin, employees will want to try to be more careful about the terms of their employment, particularly requirements that they assign any inventions to their employers. Absent an express reservation of the right to challenge the validity of

152. CAL. BUS. & PROF. CODE §16600 (Deering 1992 & Supp. 2003) which states that: "Except as provided in this chapter, every contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void."

153. The determination of whether an employer is in privity with an employee for assignor estoppel purposes is an equitable one, and depends on the closeness of the relationship between the two, including financial interests and the responsibilities of the employee. *See, e.g., Intel v. United States Int'l Trade Comm'n*, 946 F.2d 821, 839 (Fed. Cir. 1991) (stating that "[w]hat is significant is whether the ultimate infringer availed itself of the inventor's 'knowledge and assistance' to conduct infringement." (citing *Shamrock Tech., Inc. v. Med. Sterilization, Inc.*, 903 F.2d 789, 794 (Fed. Cir. 1990))).

an assigned invention, as discussed above, an employee must face potential future complications as a result of preinvention assignment agreements. However, the employee is generally not in a position to negotiate for such a reservation. As a result, the employee is faced with the dilemma of jeopardizing immediate employment by holding out for such a reservation or else hampering future employment opportunities by finding himself unmarketable in his field because of the shadow of assignor estoppel hanging over his head.

In sum, the Federal Circuit's position on assignor estoppel is counterproductive to the express purposes of the patent laws: to promote the progress of science and the useful arts. An employee forced to sign a preinvention assignment agreement will have no incentive to create or invent as doing so brings him little or no benefit nor any additional compensation from a current employer, and will only harm his chances of future employment and advancement. Similarly, employers may be discouraged from hiring the most able employees as they are the ones most likely to land the employer in a compromising position.

4. It is Unclear Whether Assignor Estoppel Would Apply to Proceedings Before the United States Patent and Trademark Office

There is little question that if an assignor is charged with infringement in the federal courts that he will be precluded from attacking the validity of the patent in suit. This is so even if the assignor has discovered a potentially invalidating prior art reference. But what if the assignor chooses instead to challenge the patent's validity through other channels, specifically the United States Patent and Trademark Office?

Pursuant to 32 U.S.C. § 302 and 37 C.F.R. § 1.510, any person may request reexamination of a patent based on a written prior art reference. A third party – including an assignor – can submit a request for reexamination to the PTO, which will then decide if there is a substantially new question of patentability and, if so, will agree to reexamine the patent. In effect, an assignor can use PTO procedures to attempt to do what the federal courts will not allow: to invalidate the patent. The difficulty arises in that a decision to reject a patent on reexamination based on a prior art reference can ultimately be appealed to the Federal Circuit.¹⁵⁴

154. 35 U.S.C. §§ 141, 306 (2000).

So what happens if the assignor decides to file a request for reexamination with the PTO so as to avoid the federal courts and the assignor estoppel doctrine? Further, if the PTO declines to apply the assignor estoppel doctrine, would the Federal Circuit be free to do so in the event that the patent owner appeals a rejection on a reexamination filed by an assignor?

Generally speaking, the fact of concurrent or even prior litigation on a patent subject to reexamination is not determinative in the PTO proceeding.¹⁵⁵ For example, the PTO is not bound by any finding by a federal court that a patent is valid.¹⁵⁶ The PTO must consider the patent claims in view of the prior art reference itself, as different standards of proof are used by the PTO than the federal courts.¹⁵⁷ Similarly, the PTO will not stay reexamination pending the outcome of litigation unless it is notified of a federal court decision invalidating the patent.¹⁵⁸

Different standards of proof notwithstanding, it seems likely courts must decide that assignor estoppel prevents an assignor from requesting reexamination given the Federal Circuit's current broad application of the doctrine. This is particularly true because the Federal Circuit already required that the International Trade Commission apply assignor estoppel in accordance with federal court decisions.¹⁵⁹

VIII. CONCLUSION

Though assignor estoppel had appeared to be a doctrine that had seen the end of its life, the Federal Circuit, seemingly in direct contravention of Supreme Court precedent, has revived the doctrine and raised it to new heights. The Federal Circuit's broad application of assignor estoppel, however, and its strict adherence to principles of fairness and justice, have not only resulted in the assignee receiving more than he bargained for in the form of an implied absolute warranty as to the validity of the patent, but has also created a doctrine which seems to discourage exactly that which the patent laws are supposed to encourage: the progress of science and the useful arts.

155. 37 C.F.R. § 1.565 (2002); *see also* Manual of Patent Examination Procedure, § 2286, U.S. Dep't of Commerce (8th ed. 2003).

156. Manual of Patent Examination Procedure, § 2286 (citing *Ethicon v. Quigg*, 849 F.2d 1422, 1428 (Fed. Cir. 1988)).

157. Manual of Patent Examination Procedure, *supra* note 156, §§ 2242, 2286.

158. *Id.* § 2286.

159. *Intel v. United States Int'l Trade Comm'n*, 946 F.2d 821, 837 (Fed. Cir. 1991).

Though the Supreme Court has not yet opted to share its own thoughts on the matter, in this era of high employee mobility, it seems clear that the current extreme interpretation of assignor estoppel will ultimately lead to a conflict that cannot be ignored.